

**REPORT OF THE AUDIT OF THE
LIVINGSTON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2001**



EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
LIVINGSTON COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2001

The Auditor of Public Accounts has completed the Livingston County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued a qualified opinion on the financial statements because of the Livingston County Convalescent Center's inadequate bookkeeping procedures.

Financial Condition:

Cash balances increased by \$302,269 from the beginning of the year, resulting in a cash surplus of \$1,378,519 as of June 30, 2001.

Debt Obligations:

Capital lease principal agreements totaled \$22,000 as of June 30, 2001. Future principal and interest payments of \$24,452 are needed to meet these obligations.

Report Comments:

- The Livingston County Convalescent Center Should Have Adequate Financial Records
- The County Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$288,325 To Protect Deposits

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Joe Ward, Livingston County Judge/Executive
Members of the Livingston County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Livingston County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Livingston County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the fourth paragraph below, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Livingston County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

We were unable to obtain sufficient supporting documentation to test patients' rents receipts of the Livingston County Convalescent Center Fund, because of the inadequacy of the financial records. Therefore, we are unable to issue an opinion on whether or not the financial amounts disclosed for the Livingston County Convalescent Center Fund are accurate or complete.

To the People of Kentucky
Honorable Paul E. Patton, Governor
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In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence supporting the receipts of the Livingston County Convalescent Center Fund, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001 of Livingston County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 28, 2002 on our consideration of Livingston County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Livingston County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, except for the effects of the matters discussed in the fourth and fifth paragraphs, above, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Livingston County Convalescent Center Should Have Adequate Financial Records
- The County Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$288,325 To Protect Deposits

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 28, 2002

LIVINGSTON COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2001

Joe Ward	County Judge/Executive
William Jerry Deatherage	Magistrate
Joe O'Bryan	Magistrate
Roy Ringstaff	Magistrate
Terry Stringer	Magistrate

Other Elected Officials:

Billy Riley	County Attorney
Lannie Hall	Jailer
James Jones	County Clerk
Connie Myrick	Circuit Court Clerk
Tommy Williams	Sheriff
Sue Ann Carver	Property Valuation Administrator
Harry Van Smith	Coroner

Appointed Personnel:

Tracie Belcher	County Treasurer
Tracy Mitchell	Occupational Tax Collector
Nerva Richards	Finance Officer
Tana Doom	Data Processing Clerk
Sam Boone	Road Supervisor

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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

LIVINGSTON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:

Cash	\$	440,261
Note Receivable (Note 4)		20,000

Road and Bridge Fund:

Cash		445,476
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Jail Fund:

Cash		16,029
------	--	--------

Local Government Economic Assistance Fund:

Cash		337,243
------	--	---------

Occupational Tax Fund:

Cash		95,684
------	--	--------

Payroll Revolving Account - Cash

	1,757	\$ 1,356,450
--	-------	--------------

Enterprise Fund Type

Convalescent Center Fund:

Cash		43,826
------	--	--------

Other Resources

General Fund Type

General Fund:

Amounts to be Provided in Future Years for Voting Machines		
Capital Lease Principal Payments (Note 5)		22,000

Total Assets and Other Resources

	\$	1,422,276
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The accompanying notes are an integral part of the financial statements.

LIVINGSTON COUNTY
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS

June 30, 2001

(Continued)

Liabilities and Fund Balances

Liabilities

General Fund Type

General Fund:

Capital Lease Principal Payments - Voting Machines (Note 5)	\$	22,000	
Payroll Revolving Account		<u>1,757</u>	\$ 23,757

Fund Balances

Reserved:

Enterprise Fund Type

Convalescent Center Fund		43,826
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Unreserved:

General Fund Type

General Fund	\$	460,261	
Road and Bridge Fund		445,476	
Jail Fund		16,029	
Local Government Economic Assistance Fund		337,243	
Occupational Tax Fund		<u>95,684</u>	<u>1,354,693</u>
Total Liabilities and Fund Balances			<u>\$ 1,422,276</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

LIVINGSTON COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2001

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 4,065,244	\$ 1,217,537	\$ 1,090,270	\$ 56,421
Transfers In	810,000	105,000	315,000	245,000
Kentucky Advance Revenue Program	425,800	425,800		
Total Cash Receipts	<u>\$ 5,301,044</u>	<u>\$ 1,748,337</u>	<u>\$ 1,405,270</u>	<u>\$ 301,421</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 3,749,675	\$ 1,062,914	\$ 1,264,480	\$ 285,195
Transfers Out	810,000	245,000		
Capital Lease on Voting Machines: Principal Paid	7,000	7,000		
Emergency Operations Central Lease: Principal Paid	6,300	6,300		
Kentucky Advance Revenue Program Repaid	425,800	425,800		
Total Cash Disbursements	<u>\$ 4,998,775</u>	<u>\$ 1,747,014</u>	<u>\$ 1,264,480</u>	<u>\$ 285,195</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 302,269	\$ 1,323	\$ 140,790	\$ 16,226
Cash Balance - July 1, 2000	<u>1,076,250</u>	<u>438,938</u>	<u>304,686</u>	<u>(197)</u>
Cash Balance - June 30, 2001	<u>\$ 1,378,519</u>	<u>\$ 440,261</u>	<u>\$ 445,476</u>	<u>\$ 16,029</u>

The accompanying notes are an integral part of the financial statements.

LIVINGSTON COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2001
 (Continued)

General Fund Type		Enterprise Fund Type
Local Government Economic Assistance Fund	Occupational Tax Fund	Convalescent Center Fund
\$ 604,222	\$ 683,403	\$ 413,391 145,000
<u>\$ 604,222</u>	<u>\$ 683,403</u>	<u>\$ 558,391</u>
\$ 527,267	\$ 41,847 565,000	\$ 567,972
<u>\$ 527,267</u>	<u>\$ 606,847</u>	<u>\$ 567,972</u>
\$ 76,955 260,288	\$ 76,556 19,128	\$ (9,581) 53,407
<u>\$ 337,243</u>	<u>\$ 95,684</u>	<u>\$ 43,826</u>

The accompanying notes are an integral part of the financial statements.

LIVINGSTON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Livingston County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Livingston County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Livingston County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Livingston County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Livingston County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, and Occupational Tax Fund.

LIVINGSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Enterprise Fund Type

Enterprise Fund Type accounts for operations that are financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Convalescent Center Fund of the Fiscal Court is reported as an Enterprise Fund Type.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Livingston County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash

Cash includes amounts in bank accounts, and investments are stated at cost.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LIVINGSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Related Organization

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Senior Citizens Center is considered a related organization of the Livingston County Fiscal Court.

G. Joint Venture

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based on this criteria, the Livingston-Crittenden Water District is considered a joint venture of the Livingston County Fiscal Court.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

LIVINGSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2001, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond. However, as of August 31, 2000, \$288,325 of deposits were unsecured. The County's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 2000.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county's name	\$ 973,767
FDIC Insured	200,000
Uncollateralized and uninsured	<u>288,325</u>
Total	<u><u>\$ 1,462,092</u></u>

Note 4. Note Receivable

On May 17, 2001, the Livingston County Fiscal Court agreed to loan (interest free) the Burna Fire Department \$20,000 to purchase property for their fire department. The loan was to be paid back to Fiscal Court when the Burna Fire Department's tax money was received. On December 11, 2001, the Burna Fire Department paid off their debt to Fiscal Court.

Note 5. Capital Lease

The county entered into a capital lease with Kentucky Association of Counties Leasing Trust for voting machines on November 30, 1994, for \$62,000 at various interest rates. The principal outstanding as of June 30, 2001 totals \$ 22,000. Lease payment requirements due in future years are as follows:

<u>Fiscal Year</u> <u>Ending</u>	<u>Interest</u>	<u>Principal</u>
6/30/2002	\$ 1,306	\$ 7,000
6/30/2003	827	7,000
6/30/2004	<u>319</u>	<u>8,000</u>
Totals	<u><u>\$ 2,452</u></u>	<u><u>\$ 22,000</u></u>

LIVINGSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 6. Lease-Purchase Agreement

The county has entered into the following lease-purchase agreement:

Description	Purchase Date	Maturity Date	Interest Rate	Principal Balance
EOC Building	12/2/1996	6/1/2002	5.67%	\$ 4,900

Note 7. Commitments and Contingencies

Livingston County co-signed a loan for the Ledbetter Sanitation District for \$35,000 on November 24, 1999. The loan was with the Kentucky Area Development Districts Financing Trust. The note expires December 1, 2004.

Note 8. Insurance

For the fiscal year ended June 30, 2001, Livingston County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Jail Canteen Fund

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations.

The Livingston County Jail Canteen Fund had income of \$ 9,492, less cost of goods sold of \$6,694, less other expenses of \$1,551, leaving net income at \$ 1,247 as of June 30, 2001. All profit expenditures were for the benefit and/or recreation of the inmates.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

LIVINGSTON COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,580,891	\$ 1,217,537	\$ (363,354)
Road and Bridge Fund	1,028,827	1,090,270	61,443
Jail Fund	61,513	56,421	(5,092)
Local Government Economic Assistance Fund	621,229	604,222	(17,007)
Occupational Tax Fund	692,300	683,403	(8,897)
<u>Enterprise Fund Type</u>			
Convalescent Center Fund	<u>536,115</u>	<u>413,391</u>	<u>(122,724)</u>
Totals	<u>\$ 4,520,875</u>	<u>\$ 4,065,244</u>	<u>\$ (455,631)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 4,520,875
Add: Budgeted Prior Year Surplus			1,098,058
Less: Other Financing Uses			<u>(13,300)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 5,605,633</u>

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SCHEDULE OF OPERATING REVENUE

LIVINGSTON COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2001

Revenue Categories	Totals (Memorandum Only)	GOVERNMENTAL FUND TYPE	PROPRIETARY FUND TYPE
		General Fund Type	Enterprise Fund Type
Taxes	\$ 1,276,865	\$ 1,276,865	\$
In Lieu Tax Payments	184,921	184,921	
Excess Fees	30,936	30,936	
Licenses and Permits	8,578	8,578	
Intergovernmental Revenues	1,923,525	1,888,525	35,000
Charges for Services	472,576	114,884	357,692
Miscellaneous Revenues	64,197	45,592	18,605
Interest Earned	103,646	101,552	2,094
Total Operating Revenue	<u>\$ 4,065,244</u>	<u>\$ 3,651,853</u>	<u>\$ 413,391</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

LIVINGSTON COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 807,893	\$ 421,673	\$ 386,220
Protection to Persons and Property	999,198	695,740	303,458
General Health and Sanitation	104,023	92,053	11,970
Social Services	12,580	8,340	4,240
Recreation and Culture	94,842	41,296	53,546
Roads	980,913	867,578	113,335
Road Facilities	749,614	677,804	71,810
Debt Service	1,700	11,270	(9,570)
Capital Projects	1,000		1,000
Administration	1,121,422	365,949	755,473
 Total Operating Budget - General Fund Type	 \$ 4,873,185	 \$ 3,181,703	 \$ 1,691,482
Other Financing Uses:			
Borrowed Money-			
Kentucky Advanced Revenue Program - Principal		425,800	(425,800)
Emergency Operations Central Lease- Principal	6,300	6,300	
Capital Lease on Voting Machines- Principal	7,000	7,000	
 TOTAL BUDGET - GENERAL FUND TYPE	 \$ 4,886,485	 \$ 3,620,803	 \$ 1,265,682
	ENTERPRISE FUND TYPE		
General Government	\$ 21,415	\$ 18,787	\$ 2,628
General Health and Sanitation	503,526	445,885	57,641
Administration	207,507	103,300	104,207
 TOTAL BUDGET - ENTERPRISE FUND TYPE	 \$ 732,448	 \$ 567,972	 \$ 164,476

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
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Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Joe Ward, Livingston County Judge/Executive
Members of the Livingston County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Livingston County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated June 28, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, except for the Livingston County Convalescent Center. We were unable to obtain sufficient documentation to test patients rent receipts, therefore, we are unable to issue an unqualified opinion on the fund.

Compliance

As part of obtaining reasonable assurance about whether Livingston County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations section.

- The Livingston County Convalescent Center Should Have Adequate Financial Records
- The County Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$288,325 To Protect Deposits

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Livingston County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Livingston County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying comments and recommendations section.

- The Livingston County Convalescent Center Should Have Adequate Financial Records

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 28, 2002

COMMENTS AND RECOMMENDATIONS

LIVINGSTON COUNTY
COMMENTS AND RECOMMENDATIONS

For The Fiscal Year Ended June 30, 2001

1) The Livingston County Convalescent Center Should Have Adequate Financial Records

During the fiscal year, adequate financial records were not maintained or available for us to audit the revenues of the Livingston County Convalescent Center Fund. In addition, a cash disbursements ledger was not maintained, a financial statement was not prepared, and not all accounts receivable cards were available. The accounts receivable card prepared for each patient should be kept on file and reconciled to the daily patient census report in order for the Convalescent Center to know how much to bill and how much was collected for that individual patient. The fiscal court should consider purchasing a computer application to keep track of accounts receivable.

During the latter part of the year, rent receipts and personal funds were deposited into a bank account held by the administrator. All of these funds should be deposited directly into a bank account held by the County Treasurer. The fiscal court then should set up a revolving petty cash account to be held by the administrator to handle the personal expenses of the patients. Each month the administrator would submit a claim to the fiscal court listing the patient's name and amount expended. The fiscal court would then reimburse this account and the total would be posted to the county's budget.

The administrator should maintain receipts and disbursements ledgers, daily cash checkout sheets to support deposits, and individual records of the patients' personal funds. The administrator should prepare a monthly financial report for the county treasurer to review detailing all revenues collected and petty cash expenditures made by the administrator.

County Judge/Executive Joe Ward's Response:

We will implement the auditor's recommendations.

2) The County Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$288,325 To Protect County

On August 31, 2000, \$288,325 of the county's deposits of public funds in depository institutions was uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Judge/Executive Joe Ward's Response:

County Treasurer is monitoring accounts and adequate securities are being pledged currently.

PRIOR YEAR FINDING:

- The Jailer Should Deposit Jail Canteen Receipts On A Timely Basis (Corrected)

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CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM

LIVINGSTON COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

Appendix A

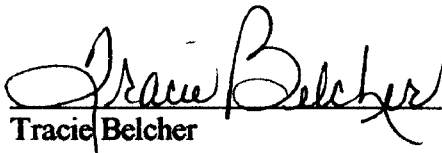
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
LIVINGSTON COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Livingston County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Joe Ward
County Judge/Executive



Tracie Belcher
County Treasurer